

OVERVIEW

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The Accounts of Government companies are audited by Statutory Auditors appointed by CAG. These Accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2011, the State of Uttar Pradesh had 83 working PSUs (76 companies and seven Statutory corporations) and 40 non-working PSUs (all companies), which employed 0.74 lakh employees. The working PSUs registered a turnover of ₹ 39,298.30 crore for 2010-11 as per their latest finalised Accounts. This turnover was equal to 6.68 per cent of the State GDP indicating a moderate role played by the State PSUs in the economy. However, the working PSUs incurred overall Loss of ₹ 3,714.44 crore in 2010-11 and had Accumulated Losses of ₹ 21,448.03 crore.

Investments in PSUs

As on 31 March 2011, the Investment (Capital and Long Term Loans) in 123 PSUs was ₹ 82,911.80 crore. It grew by over 196.04 per cent from ₹ 28,007.35 crore in 2005-06 to ₹ 82,911.80 crore in 2010-11 mainly because of increase in Investment in Power Sector which accounted for 92.51 per cent of the total Investment in 2010-11. The Government contributed ₹ 7,233.22 crore towards Equity, Loans and Grants/Subsidies during 2010-11.

Performance of PSUs

During the year 2010-11, out of 83 working PSUs, 31 PSUs earned Profit of ₹ 1,003.75 crore and 24 PSUs incurred Loss of ₹ 4,718.19 crore. Two working PSUs, which were incorporated during 2006-07 had not submitted their first Accounts whereas 26 companies maintained their Accounts on "No Profit No Loss" basis. The major contributors to Profit were Uttar Pradesh Avas Evam Vikas Parishad (₹ 338.46 crore), Uttar Pradesh Rajkiya Nirman Nigam Limited (₹ 195.64 crore), Uttar Pradesh State Industrial Development Corporation Limited (₹ 97.01 crore) and Uttar Pradesh Forest

Corporation (₹ 115.67 crore). The heavy losses were incurred by three Power Sector companies (total ₹ 3025.58 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the state PSUs losses of ₹ 2,763.95 crore and infructuous Investments of ₹ 39.33 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of Accounts

The quality of Accounts of PSUs needs improvement. Of the 51 Accounts of working companies finalised during October 2010 to September 2011, qualified certificates were issued for 39 Accounts, adverse certificates for two Accounts, disclaimer for two account and unqualified certificates for eight Accounts. There were 46 instances of non-compliance with Accounting Standards. Of the eight Accounts finalised during October 2010 to September 2011 by the six Statutory corporations, we conducted audit of three Accounts and issued qualified certificate for three Accounts. The audit of rest of five corporations was under finalisation.

Arrears in Accounts and winding up

Sixty nine working PSUs had arrears of 206 Accounts as of September 2011. The arrears need to be cleared in a time bound manner by setting targets for PSUs. There were 40 non-working companies. As no purpose may be served by keeping these PSUs in existence, Government needs to expedite closing down of the non working PSUs.

2. Performance Audit relating to Government companies

Performance Audit relating to working of Power Distribution Utilities in the state of Uttar Pradesh was conducted. Executive summary of our audit findings is given below:

Power Distribution Utilities in Uttar Pradesh

Power is an essential requirement for all facets of life. The distribution system of the Power Sector constitutes the final link between the Power Sector and the consumer. The efficiency of the Power Sector is judged by the consumers on the basis of performance of this segment. National Electricity Policy aims to bring out reforms in the Power Distribution sector with focus on system up-gradation, controlling and reduction of sub-transmission and distribution losses and power thefts and making the sector commercially viable.

In Uttar Pradesh, distribution of power is carried out by the five Distribution Companies (DISCOMs) i.e. Kanpur Electricity Supply Company Limited (KESCO), Paschimanchal Vidyut Vitran Nigam Limited (PVVNL), Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL), Purvanchal Vidyut Vitran Nigam Limited (PuVVNL) and Madhyanchal Vidyut Vitran Nigam Limited (MVVNL). We selected KESCO and PVVNL for the performance audit covering period from 2006-07 to 2010-11. The audit was conducted to ascertain whether the aims and objectives stated in the National Electricity Policy were adhered to and how far the distribution reforms were achieved. Besides, execution of Centrally Sponsored Schemes viz. RGGVY and APDRP/R-APDRP was test checked with reference to the contracts and payments made there against.

Financial position and working results

The DISCOMs were not able to recover their cost of operations and the Accumulated Losses increased year after year and mounted to ₹ 29,068.78 crore in 2010-11 against ₹ 9,521.94 crore in 2006-07. The realisation per unit ranged between ₹ 2.84 and ₹ 3.96 against the cost per unit of ₹ 4.06 to ₹ 5.37 during 2006-11.

Distribution network planning

Against the planned additions of 609 Sub-stations over the audit period, only 498 Sub-stations were actually added. The increase in transformation capacity was not commensurate with the increase in connected load. During the audit period,

the connected load increased from 23,730 MVA to 32,504 MVA (36.98 per cent) whereas transformation capacity increased from 19,842 MVA to 26,250 MVA (32.29 per cent). Due to delayed construction of 179 sub-stations, PVVNL could not get the financial benefit of ₹ 67.64 crore.

Implementation of Centrally Sponsored Schemes

RGGVY was launched (April 2005) with the objective to provide access to electricity for rural households by 2009. The DISCOMs received ₹ 1741.01 crore for electrification of 23,325 villages against which 22,062 villages were electrified at a cost of ₹ 1687.00 crore during the audit period leaving a gap of 1263 villages. The scheme was being executed at very high cost. Test check in audit revealed that extra expenditure of ₹ 186.52 crore was incurred due to award of work at exorbitant rates and excess payment of Trade Tax.

In execution of APDRP/R-APDRP schemes implemented for up-gradation of distribution system and establishment of IT enabled system, cases of cost overrun of ₹ 2.24 crore and procurement of sub-standard material of ₹ 1.89 crore was found in KESCO. Under R-APDRP, PVVNL drew loan of ₹ 132.02 crore in 2009-10 and 2010-11 for work of establishment of centers for IT enabled system, out of which only ₹ 27.78 crore was utilised

Operational efficiency

The overall sub transmission and distribution losses ranged between 23.41 and 29.11 per cent against the norm of 25.21 to 27.40 per cent during 2006-11. Against the ideal ratio of 1:1, the ratio of transformation capacity to the total connected load ranged between 0.77:1 and 0.86:1 during 2006-11. Percentage of failure of Distribution Transformers (DTRs) ranged between 15.45 and 17.15 per cent against norm of 5 per cent. The DISCOMs failed to devise proper internal control mechanism and effective managerial control to ensure timely return of damaged transformers after repair.

The DISCOMs also did not install required capacitor banks of 12,205.38 MVAR

capacity, due to which saving of energy of 600.10 MU per year valued at ₹ 237.64 crore could not be done.

Billing and revenue collection efficiency

During audit period, energy billed on the basis of meter readings ranged between 47.75 and 55.45 per cent of the total energy available for sale within the State. Under/short billing of ₹ 8.97 crore on account of incorrect application of tariff, unmetered supply and defective meters etc. was done by the DISCOMs. In addition, the DISCOMs did not levy ₹ 39.58 crore on account of Electricity Duty, late payment surcharge, penalty and security deposit. Outstanding dues increased from ₹ 4,982.19 to ₹ 12,985.36 crore during 2006-11. The DISCOMs failed to initiate effective pursuance for recovery of outstanding dues.

Tariff fixation

The DISCOMs failed to file the Annual Revenue Requirement (ARR) petitions within the prescribed period of 120 days before the commencement of the respective

year. The delay ranged between 19 to 479 days, resulting in non-realisation of potential revenue of ₹550.90 crore.

Conclusion and recommendations

The DISCOMs were not able to recover its cost of operation and its accumulated losses increased by 205.28 per cent during 2006-11. Many schemes initiated for strengthening of distribution network in the State, started by the DISCOMs, had been abnormally delayed or remained incomplete. The DISCOMs consistently failed to achieve its performance parameters and the targets.

We have made six recommendations to improve the distribution segment of the Power Sector in the State. Making of plans for reduction of T&D losses and power theft, correct billing, ensure timely completion of all the schemes, achievement of performance parameters & targets and fixing yearly targets/ milestones for energy audit, etc. are some of these recommendations.

3. Performance Audit relating to Statutory corporation

Performance Audit relating to working of Uttar Pradesh Avas Evam Vikas Parishad was conducted. Executive summary of our audit findings is given below:

Uttar Pradesh Avas Evam Vikas Parishad

Uttar Pradesh Avas Evam Vikas Parishad (Parishad) was established in April 1966 under the Uttar Pradesh Avas Evam Vikas Parishad Adhiniyam, 1965 (Adhiniyam) with the main objective of providing houses/plots at affordable prices in tune with the State and National Housing Policy towards solving the housing problems being faced by different sections of the society. The Parishad undertakes activities of acquisition of land, development of Land, construction of properties and allotment/sale of properties.

Delay in acquisition of land

There were delays at every stage of the land acquisition procedure. Though the sites for six schemes were selected during September 2006 to February 2010, the Parishad, however, could not notify the schemes under Section (u/s) 28 of the Adhiniyam despite lapse of 13 months to 54 months. In ten schemes, the Parishad had not taken the possession of land despite lapse of 35 months to 289 months from the date of notification u/s 32 of the Adhiniyam.

There was no system in the Parishad to monitor status of funds provided to the Special Land Acquisition Officer vis-à-vis actual acquisition/ possession of land.

The Parishad did not evolve any system to exercise the powers given in the Adhiniyam to restrict and/or remove unauthorized constructions. This resulted in encroachments/ disputes on 858.93 hectare land valued at ₹ 137.44 crore in 42 schemes of the Parishad.

Development of land and construction of properties

The Parishad failed to achieve the targets of land development and construction of properties. The target for development of land to total land available had been decreasing over the years. It decreased from 29 per cent in 2006-07 to 8.87 per cent in 2010-11. The percentage of actual land developed to the total land available also decreased from 18.33 per cent in 2006-07 to 4.17 per cent in 2010-11.

The achievement of target set for construction ranged between 38.82 per cent and 71.88 per cent except for the year 2007-08. Further, there was time overrun of more than six months in 70.01 per cent of the total works executed by the Parishad. The Parishad has not made provisions for rain water harvesting and ground water recharging in eight schemes as required in the Government order of April 2006.

Costing of properties

The Parishad deviated from the Costing Guidelines in fixing the sale price of properties which resulted in a loss of ₹ 13 crore in one project and enhancement of price by ₹ 30.63 crore in other two projects.

The Parishad also violated the Costing Guidelines as regard to costing of schemes which resulted in enhancement of cost of properties by ₹ 224.60 crore. This defeated the objective of the Parishad to provide housing solutions at affordable cost.

Allotment of properties

A lot of properties were lying unallotted. The Parishad did not frame any firm plan to liquidate its unsold properties resulting in locking up of Parishad's fund of ₹ 554.05 crore.

The Parishad failed to comply with the provisions of the Viniyam relating to allotment of properties, as a result refund of ₹ 2.09 crore was made in excess of the permissible amount on cancellation of two group housing plots in two schemes.

Manyawar Shri Kashi Ram Ji Sahri Garib Avas Yojna

For execution of the Yojna launched by the State Government, a major portion of the

Parishad's workforce was deployed. The Parishad, however, did not receive centage charges of ₹ 204.82 crore, met additional expenditure of ₹ 21.19 crore from its Infrastructure Fund and loaded the cost of land amounting to ₹ 41.02 crore provided free of cost for the Yojna on its own schemes.

Internal Control System

Internal control system of the company was weak as adequate control mechanism towards timely and smooth implementation of schemes did not exist. Internal audit wing was not commensurate with the size and volume of the business of the Parishad.

Conclusion and Recommendations

There were delays at every stage of land acquisition and failure in achieving targets. There had been deviations from the Costing Guidelines. Properties of huge value remained unsold due to non-marketability and encroachments. The market value of nearby plots were not considered for fixation of reserve price resulting in auction of properties at lower prices. The internal control system was weak in the Parishad.

We have made seven recommendations which include adherence to the fixed time frame and follow-up for land acquisition, development and construction activities, effective steps for liquidating unsold properties, to adhere to the provisions of the Costing Guidelines and strengthening the internal control system.

4. Transaction Audit Observations

Our Transaction Audit Observations included in this Report highlight deficiencies in the management of Public Sector Undertakings involving significant financial implications. The irregularities pointed out are broadly of the following nature:

There were six cases of avoidable Loss/Expenditure amounting to ₹ 43.64 crore.

(Paragraphs 4.2, 4.3 and 4.5 to 4.8)

There were three cases of non-recovery of dues amounting to ₹ 14.44 crore.

(Paragraphs 4.1, 4.4 and 4.9)

There were two cases of violation of Statutory/contractual obligations amounting to ₹ 1.31 crore.

(Paragraph 4.10 and 4.13)

There was one case of Loss of revenue of ₹ 0.70 crore.

(Paragraph 4.12)

Gist of some of the important paragraphs is given below:

- **The Pradeshiya Industrial & Investment Corporation of U. P. Limited** suffered loss of ₹ 1.27 crore due to making payment of collection charges to the District Collector before recovering it from the borrowers.

(Paragraph 4.1)

- **Madhyanchal Vidyut Vitran Nigam Limited** incurred excess expenditure of ₹ 36.93 crore on repair of transformers due to non-preparation of cost analysis for HV/LV leg coils and finalising the rates without referring prevalent market rates.

(Paragraph 4.6)

- **Uttar Pradesh Financial Corporation** suffered Loss of ₹ 10.44 crore due to change in OTS Guidelines de-linking valuation of mortgaged security in certain class of non-performing Loans.

(Paragraph 4.9)

- **Uttar Pradesh State Road Transport Corporation** incurred an avoidable expenditure of ₹ 97.70 lakh due to non recovery of compensation in accident cases from the private bus owners.

(Paragraph 4.10)